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Audit's® MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES

Realty Stock Review

November 18, 1988 Volume XIX, Number 21

Be cautious; Market looks 'Bushed'

Technical indicators signal big trouble. Raise cash for bargain buys

A number of ominous thunderheads have rolled in since the last REALTY STOCK REVIEW issue. Foreign currency markets have gone into a tizzy over theelection of George Bush as the next U.S. President because of his "Read my lips" tax pledge.

Bush has taken pains to calm the markets by naming key members of his financial team weeks earlier than any previous President-designate in our memory. But some Wall Streeters are speculating that the Federal Reserve will move rapidly to force a "quickie" recession, so that (1) outgoing President Reagan will share the blame and (2) the economy could be recovering by the time the 1990 Congressional elections roll around.

It's impossible to verify or refute that kind of a theory. But our reading of stock market action since the election gives the strong impression that the market half believes the story. At any rate, a number of technical market indicators are turning sour and while we don't follow such technical measures slavishly, we think they do indicate that the broader stock market is likely to be very weak for awhile. Consider:

All the major indices -- S&P 500, Dow-Jones Industrials, NYSE Composite -- have now broken below their 200-day moving averages. When this happens, it means prices are no longer moving upward because investors aren't willing to chase stocks.

The advance/decline ratio (i.e., the number of gainers minus the losers) began falling in March, even tho broad market indicators like the S&P 500 and DJI moved to new highs in late summer. This divergence is generally ominous because it means the majority of stocks are sinking in price. We take this to mean that the leveraged buyout/takeover fervor of October drove prices of a few stocks to new highs even as most stocks were already declining.

Now, as one wag observed, the market is "Bushed." The Bush election has deflated the wildest of the LBO/takeover dreams, and juicy bids for RJR Nabisco, Interco and several others are evaporating because some are unfinancable. Now comes a pair of spoilsport lawsuits by Metropolitan Life Insurance Co. and ITT Corp. against RJR Nabisco, asserting that RJR's endorsement of an LBO effectively converted their holding of RJR high grade bonds into junk bonds overnight.

All this is fast deflating the takeover/LBO balloon. With that gone, the broad market looks very tired and we recommend you take a cautious stance to the market.

Specifically, year-end tax-loss selling is likely to be more vicious than ever this December. So it is logical to keep some cash resources against the bargins that should surface. We are developing a shopping list of stocks to buy in event of a market break and will publish them in the next issue of REALTY STOCK REVIEW.

It's in this context that we review the homebuilder/developer group this issue. Expectably, we find very few issues that stir the buying urge. Most major homebuilders have been out of favor and the poor news on the interest rate front means they will continue under a cloud for awhile.

The companies reviewed include four homebuilders, three land developers, an investment builder, and a property trading company. Three are running at losses, one by design (Perini Investment), one by virtue of slow land sales (Major Realty), and one by reason of high leverage (Southmark). Thus our list of price/earnings ratios and yields is a mixed bag.

Within the soggy market picture, you should be reminded that real estate is an intensely local business and some builders in some regions could buck the money

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market trends.

Stock	Price	Price/Earn.	Yield
AMREP Corp.	$ 8.25	46	0.0%
NVRyan L.P.	5.75	5	11.8
Newhall Land	45.38	15	2.6
Major Realty	9.25	--	--
PHM Corp.	9.13	114	1.3
Perini Invest	16.00	--	3.8
Ryland Group	17.50	7	2.9
Southmark	2.25	--	--
Standard Pac.	11.75	6	10.2

California's hot housing market is Exhibit A. Currently Standard Pacific L.P. is profiting handsomely because it is able to operate effectively in a slow-growth environment that knocks many smaller builders out of the market because they don't have the dollar firepower to work land thru the tortuous approval process. See the SPF review for more detail on the California market.

Three other homebuilders are there too. Ryland Group moved into the Golden State nearly two years ago by buying M.J. Brock Co. and this could be RYL's anchor to windward. NVRyan L.P. has just tippy-toed into the state by buying a smallish builder whose financial backer is exiting. And PHM Corp.'s Pulte Homes has expanded its California operations while scaling back in Texas and the Southwest.

The three land bank companies reviewed are by their very nature localized. Newhall Land & Farming, developer of a prized California tract, has been boomed by takeover speculators acting without a shred of evidence that any one with $1 bil. or so is really interested. We would pass at current prices. AMREP Corp., sponsor of a major community near Albuquerque, is quite another story. It has just won a key court decision against the FTC and could be more vulnerable to a takeover than in years. Best of all, it sells below historic cost book value.

Major Realty, owner of a large Orlando, Fla. tract and a downtown Tampa site, is working to build two elephant-sized income properties and the stock will rise and fall on its success.

Which brings us to Southmark. The troubled property trading and financial services company is laboring under a humongous corporate debt load, even after adjusting for liabilities of its S&L and insurance subsidiaries. Perhaps we're paranoid about SM's recapitalization plan but we see it as a bargaining chip to wring concessions from preferred stockholders. The common should be avoided but very venturesome might go for a preferred.

Investors look past see-through skyline for location, location, etc.

Sears Roebuck & Co. is the latest corporate giant to seek to capitalize on its real estate assets. Sears plans selling its 3.6 mil. sq. ft. Sears Tower in Chicago. Best guess is it will go for $250 to $300 per SF, or about $900 mil. plus. It would be about two-thirds vacant when Sears moves out.

Meantime the 1 mil. SF Heritage Plaza in Houston changed hands at $110 per sq. ft. -- just over half the $200/SF it cost in 1984. It is 92% vacant.

Hotel Investors Trust halved its payout to $1/sh. and said it expected to hold that rate thru 1989. HOT cited hot competition in several markets and poor results at several recently renovated hotels.

Princeville Corp. is target of a $15.50/sh. tender offer from Qintex Australia Ltd., an Australian company which owns 53.4% of Princeville's 9.6 mil. shares. Princeville's independent directors earlier rejected the offer from Qintex. We have no opinion.

NEWS TICKER

California REIT shares are being sought at $6.40/sh. cash by **B.B. Real Estate Investments**, formerly Del Webb Investment Properties. The offer expires Dec. 9 unless extended. CT wrote down asset value to $6.60/sh. just prior to the tender. We would tender shares.

One Liberty Properties Inc., a lease-back REIT, has agreed to be acquired by **Presidential Realty Corp.** by exchanging 1.1606 shares of Presidential Class B stock for each OLP share. **Metropolitan Consolidated Industries**, which had an earlier deal with OLP, is suing to block the merger, which must be approved by OLP shareholders.

Gould Investors L.P. upped its stake in OLP to 27.8% and said it would vote against the Presidential merger if a shareholders meeting is called. GLP previously offered to buy a majority of OLP shares at $16.25/sh.

Resource Pension Shares I, II, and III, the three REITs sponsored by Integrated Resources, are being asked to vote on Dec. 15 on merging the trio plus a limited partnership into one trust initially with about $200 mil. assets. The merged trust would have infinite life, vs. the finite life of the current trio.

Wedgestone Financial has provoked more phone calls than any stock in years. WDG suspended its dividend in Oct. (it had been paying $1.20/yr. in monthly bites) after adding $5 mil. to its loss reserve. That caused a $0.62/sh. loss. WDG has plunged to $2.63 from a high over $14 in the last 12 months. That's a 67% discount from $8.04 book value.

Should you buy? We said Sept. 9 that WDG had a great track record dealing with troubled properties in its own Boston back yard. But many of its troubled loans are now far afield. We would pass for now.

While we're cautious, WDG insiders say they will buy up to 250,000 shs. in the open market beginning Nov. 28. Insiders already own 10.9% and could add another 4.3% to their holdings.

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AMREP CORP.

AXR may have just lost its most effective shark repellant. Known primarily as the developer-builder of Rio Rancho community near Albuquerque, N.M., AXR has been embroiled for years with the Federal Trade Commission about fraudulent land sales practices at Rio Rancho from 1972 thru 1976, when AXR largely discontinued retail land sales.

This ongoing FTC imbroglio has always deterred AXR's many suitors. But in October, AXR won what appears to be the last major litigation battle when a Federal judge in NYC threw out the FTC's attempt to seek relief for land buyers who'd already settled a 1981 class action. The decision may only be appealed with consent of the judge, who recently told the FTC not to bother.

Gut Issue: Is anybody now interested in making a run at AXR? Over the years AXR has fended off several takeover trys: In 1982, Saul Steinberg and New York investment managers Morgens Waterfall made a run at AXR, then sold when AXR opposed. In 1983-84, Canadian investor George Mann (who controls Unicorp American Corp.) mounted a takeover move that ended in June 1984 when AXR bought back Mann's 1.48 mil. shs. (adjusted) at $14.22/sh, or $21 mil. payable over three years.

In Sept. 1984 AXR adopted an anti-takeover package including a "fair price" clause forcing takeover hopefuls to pay a single price to all shareholders (i.e., no two-tier offers).

About 20.8% of shares are currently held by three investment groups: 8.2% by Kane Miller Corp., Tarrytown, N.Y. private food company and stock investor; 6.8% by estate of investor H.C. Bennett, Wichita; and 5.8% by clients of Dimensional Fund Advisors, Inc., Santa Monica, Cal. Insiders own 5.2% more.

The honey attracting the bees clearly lies in AXR's 26,000 acre land inventory at Rio Rancho, a major community begun as an installment land sales project in the 1960s. Rio Rancho, 11.5 miles northwest of Albuquerque, sits in the path of Albuquerque's main expansion route and has grown into a city of 32,000, mostly first-time homebuyers attracted by its cheap house prices.

AXR book value of $10.04/sh. puts an $800/acre value on AXR's 26,000 acres. About 6,200 acres are in contiguous blocks suitable for current development and the rest in scattered tracts.

Current values, however measured, are many times AXR's cost: a typical building lot of about 3/4 acre is valued at $10-$12,000 today while commercial land is at $3.50-$5/sq. ft. or $150,000-$200,000 per acre. AXR appears to be absorbing about 1000/ac. a year, building and selling about 800 homes a year (762 homes in the April 1988 FY); selling building lots to other builders (50 in 1988); and commercial land to income property developers ($6.8 mil. in 1988). Land sales are more volatile than home sales.

Advice: Buy for aggressive accounts, even in face of today's grim money market. The 15% discount to cost-basis book value should be rewarding longer term. (KDC)

AXR-NYSE Rank C April years 6.61 mil. shares
$8.25 Div. None Yld. 0.0% Price/Earnings: 46

	Op.EPS	Div.	High	Low	Pr.X EPS
1985	1.03	0.00	$9.86	$5.69	9.6-5.5
1986	1.44	0.00	22.50	9.13	15.6- 6.3
1987	0.94	0.00	23.38	11.25	24.9-12.0
1988	0.31a	0.00	16.88	6.38	54.2-20.6
1989E	0.30-0.40	0.00	9.88	7.13z	

a-Plus $0.53 cumulative effect of accounting change. z-To date.

Debt $49.0 mil; Equity $66.3 mil. ($10.04/sh.) Debt/equity ratio: 0.74

Address: 10 Columbus Cir., New York, N.Y. 10019. (212) 541-7300.

RV 11188

NVRYAN, L.P.

NVRyan L.P. is the national multimarket homebuilder combining a relatively new Washington, D.C. builder with giant Ryan Homes, accomplished by tender and merger in 1986-87. The two have operated as a unified company for over a year now and sales and earnings are strong, buoyed by a move to higher-margined upscale homes. The Sept. qtr. payout was boosted 42% to a $0.68 annual rate. And NVR also just acquired a Calif. homebuilder in a move that raises 1989 expectations.

Gut Issue: If business is so good, why are NVR shares on the bargain counter at less than 5 times EPS and yielding 11%. We see two possible reasons:

1. Interest rates are rising and no one wants to own a homebuilder whose earnings could tank. No doubt, all homebuilders are out of favor. NVR dominates the strong Washington, D.C. market and is well positioned in the reasonably strong Northeast, Mid-Atlantic, and Midwestern markets. If interest rates go to 12% or so, NVR would be hurt but not nearly as much as builders in other areas. In our view, this reason is over-emphasized.

2. NVR is highly leveraged and could get hurt in a downturn. NVR is carrying $465 mil. of debt, nearly all relating to the Ryan Homes acquisition, or 3.9 times NVR's $120.1 mil. equity including $26.7 mil. preferred. About half or $229 mil. floats with the prime rate, and another $233 mil. carry 12.75% average rates.

NVR promises a stronger balance sheet by end of 1989. It recently paid down $40 mil. on bank lines (vs. $20 mil. required); converted $20 mil. CMO residuals to cash by starting RYMAC Mortgage Investment Corp. (RSR, Sept. 23); and may raise another $20-$40 mil. selling interests in existing joint ventures.

Operationally, NVR is going for margins rather than unit volume. NVR delivered 6,213 DU in the nine mon. thru Sept., up 2.6%, and while unit backlog fell 4% to 3,633 units, its dollar value rose 37% to $562 mil. and average home price in backlog grew 43% to $154,750. In Oct. NVR paid $7 mil. for H.R. Remington Props., adding about 350 building lots split between the San Francisco and Orange County (Los Angeles) areas. Remington expects to earn $11 mil. pretax on $60 mil. volume in 1988. NVR stepped in when a local bank that had financed Remington exited.

Advice: We urge a very cautious stance on NVR until the interest rate and homebuilding cycles start turning positive. Fully diluted EPS rose 91% to $0.84 in the Sept. 9 mon. and should hit about $1.20 for 1988. We see 1989 as being flat unless the interest rate cycle changes. As a master limited partnership, NVR pays no Federal income tax, hence the higher dividend yield. (KDC)

NVR-ASE Rank B Dec. yrs. 24.96 mil. units
$5.75 Div. $0.68 Yield. 11.8%

	Oper. EPS	Div.	High	Low	Yield Range
1985	$0.38	$0.00	N M	N M	None
1986	0.75	0.37	$10.00	$4.50	3.7-8.2%
1987	0.76	0.56	21.63	3.63	2.6-15.4
1988E	1.20	0.58	7.38	3.88z	7.8-14.9
1989E	1.20	0.68			

NM-No market. z-To date.

Debt $464.6 mil. Pfd.: $26.7 mil. Net Equity: $91.3 mil. ($3.63/sh.). Debt/equity ratio: 5.4

Address: 7601 Lewinsville Rd., Suite 300, McLean, Vir. 22102. (703) 761-2000.

NEWHALL LAND & FARMING CO. L.P.

NHL is a master limited partnership developing a 37,000-acre land bank 35 miles northwest of Los Angeles. The Newhall family acquired much of the land in the late 1800s. NHL's main business for 20 years has been creating the city of Valencia. About 45% of the Newhall Ranch property cannot be developed.

Gut Issue: How much of NHL's current $46.25 price is due to lingering takeover pressure? Too much, we think. NHL's price is buoyed from May's attack of arb fever. A unitholder's suit to block takeover defenses revealed that NHL management had received inquiries from several prospective buyers. NHL shot up $10/unit to $47. The price has stayed high, even though no serious offers have emerged. We don't believe one will.

What's NHL worth? Take your pick of appraisals. NHL's published data values the company's land, cash and debt at $41/unit, not including mineral rights, utilities or 130 acres of a housing development. In a takeover defense plan, NHL's investment banker, Morgan Stanley, put a $70-$92/unit value on the entire company. Even one NHL official conceded that the $90-plus value is a long, long reach. A study commissioned by director Ezra Zilka, who toyed with a takeover last winter, put a $58-$63 value on NHL but we think true value is just a bit shy of $50/sh.

But we don't think a takeover will happen. First, management and the Newhall family control about 36.7% of NHL, which is de facto veto power. Raiding NHL would be further complicated by the mass land auction that would inevitably follow. At a $1.3 bil. price, debt costs on even a modestly 50% leveraged deal at incredibly favorable 11% rates would outstrip NHL's 1988 estimated operating cash flow of $63 mil. A flood of land coming onto the market means you wouldn't fetch top dollar. Further, a raider wouldn't have the Newhall family's four generations of political clout in the Santa Clarita Valley, an invaluable asset where no-growth advocates are more influential than developers.

It's not that NHL lacks the value to support the current price. The sprawling Valencia holdings are well positioned for the California housing boom, located just 35 miles up the freeway from L.A. and closer to suburban employment centers. NHL is slowly and conservatively filling the Valencia holdings with a mix of housing and commercial development. Home and residential lot sales account for 56% of revenue; commercial and industrial operations generate 27% and ranching and agricultural revenue another 15%. NHL plans to acquire Newhall Resources L.P. (NR-NYSE) an MLP that owns most of the mineral rights under NHL land. Currently yielding around 9% at the expected $7/unit price, the $30 mil. investment would give NHL greater control over its land plus a nice return.

Recent settlement of a unitholders' suit will pay out a $0.30 special dividend plus allocate $40 mil. for a unit-buyback program through mid-1990. That will reduce the number of outstanding units 4.5% at the current prices.

Advice: We don't have any fundamental criticism of NHL's business, but at $46.25 the units are fully priced. If you've already seen big paper profits in NHL, consider cashing in. Absent a takeover, we don't see enough mid-term upside. NHL would have to sink at least 10-15% to rate a buy. (JMH)

NHL-NYSE Rank A Dec. years 19.8 mil. shares
$46.25 Div 1.20 Yield 2.5% P/E Ratio 17.8

	Op EPS	Div.	High	Low	Yield
1985	$2.07	$.74	$31.88	$19.50	2-4%
1986	2.20	.85	43.25	31.13	2-3
1987	1.92	.86	42.50	21.75	2-4
1988E	2.60	1.20	48.25	30.00z	3-4
1989E	2.40	1.20			

z-To date.

Debt: $74.7 mil. Equity at cost: $155.9 mil. or $7.88/un. Debt/equity ratio: 0.48-1.
Address: 23823 Valencia Blvd, Valencia, Cal. 91355. (805) 255-4000.

RV 11188

PHM CORP.

Through its Pulte Homes subsidiary, Mich.-based PHM is a major homebuilder. PHM has been battered during the past three years by sagging Southwest operations and $38 mil. ($1.45/sh.) in mortgage banking and financing losses since 1986.

PHM traded at $27/sh. in 1984 and bottomed out at $6.13 in May. But PHM shares have bounced back sharply to $9.13, up 40% since last spring. PHM has sharply reduced Texas, Arizona and Colorado operations and has focused on California, Florida, Georgia, Illinois, North Carolina and the Washington D.C. area. While PHM has traditionally only bought developed land, the company is now banking raw parcels in tighter land markets.

Although PHM stock has rebounded, the builder's turnaround is erratic. PHM's mortgage operations continue to be a drain, mostly from the demise of mortgage insurer TMIC Insurance Company Inc. From 1981 to 1984 PHM issued collateralized mortgage obligation bonds secured by TMIC-insured loans. As Southwest home foreclosures soared, TMIC was flooded with insurance claims and halted payments, leaving mortgage holders such as PHM on the hook. **As a result, PHM put its PHM Credit subsidiary into Chapter XI on Nov.18.**

Financial services operating losses for the nine months ended Sept. 30 almost tripled to $5.3 mil ($0.19/sh.) from 1987, primarily due to a $5 mil. increase in loss reserves that can't be recovered from TMIC. PHM took a $12.4 mil. charge in Dec. 1987 based on a best-case estimate of TMIC-related losses. We believe more write-offs in PHM's $2.2 bil mortgage portfolio could come, most likely with an end-of-the-year clean-up by the auditors.

At the same time, operating income from home sales fell 25% to $24 mil.($0.91/sh.) despite a 3.8% increase in revenue to $572 mil. The bright spot, however, is PHM's order backlog. That increased to 2,425 units worth $316 mil. at Sept. 30, up 15% on unit volume and 26% on dollar volume from sale of higher-priced homes ($130,000 average price vs. $118,000). PHM wrote 1,890 new orders worth $238 mil. during the Sept. quarter, up 6% on unit volume and 22% on dollar volume.

Overall, PHM's performance is significantly worse than last year. Nine-month EPS is off 27% to $0.47 even before extraordinary items and accounting adjustments that left a -76% gap.

And as if PHM's own turnaround problems aren't bad enough, in September the company acquired five brain-dead Texas thrifts. PHM will contribute a total of $45 mil. cash. PHM will be able to tap 75% of the thrifts massive accumulated net operating losses (NOLs) to shelter future income. FSLIC will contribute $245 mil. in promissory notes toward the thrifts' capital. Since acquiring ailing S&Ls is really the last clean avenue to buying NOLs these days, we believe PHM mostly wants a huge tax shelter. With just $45 mil. committed to the deal, PHM's exposure isn't enormous. But we question whether promissory notes from the insolvent FSLIC should be carried at face value.

Advice: Avoid. PHM has disappointed before and the risk that it will do so again is too high. (JMH)

PHM-NYSE) Rank c Dec. years 26.3 mil. shares
$9.13 Div. 0.12 Yield 1.3% P/E Ratio: NM

	EPS	Div.	High	Low	Yield
1984	0.65	0.12	27.00	10.13	1-1
1985	0.90	0.12	21.75	10.38	1-1
1986	0.79	0.12	22.75	10.75	1-1
1987	1.77	0.12	17.00	7.00	1-2
1988E	0.42	0.12	10.00	6.13	1-2

Debt: $2.8 bil.consolidated. Equity: $231.3 mil. ($8.81/sh.) Debt/Equity Ratio: 12.2-1
Address: 33 Bloomfield Hills Pwy., Bloomfield Hills, Mich. 48013. (313)-647-2750

PERINI INVESTMENT PROPERTIES INC.

PNV is an investment property company owning buildings primarily in Calif., Ariz., Fla. and Mass. both solely and thru joint ventures. PNV was spun out of Perini Corp., the international general contractor, but control is currently being pursued by Goodtab Management Co., Los Angeles investor.

Gut Issue: Will PNV complete its property swap in 1988 and reverse its cash flow slide? In the Dec. 1987 quarter, PNV agreed to sell its historic 44% interest in 481,000 sq.ft. Alcoa Bldg., San Francisco, to an affiliate of JMB Realty Co. The general and limited partners contracted to a tax-free swap (PNV's interests had an implied value of approx. $62 mil.) for interests in other real estate to be identified later. The Alcoa building was valued at $141 mil. (approx. $311/sq. ft.) as a basis for the exchanges.

PNV entered the swap to trade taxable income from the Alcoa Bldg. for tax-sheltered income from new, more highly leveraged properties that will create book losses for accounting.

But entering the tax swap caused a "temporary" decrease in cash flow for PNV (CFS fell 47% to $0.47/sh. thru the Sept. qtr.). And it involves the uncertainty that suitable exchange property may not be located to complete the swap. If the basis value of property is not completely exhanged during the remainder of 1988, the selling partners can elect to receive cash. PNV, however sees greater future value in possession of real assets.

PNV has acquired four properties under the exchange. That adds $27.7 mil. value to its roster of nine wholly-owned properties with a total 12/87 cost basis of approx. $113 mil. and encumbrances of $70 mil. The new properties are: North Tucson (Ariz.) Business Center, a 91,000 Sq. ft. office/industrial property; Westin, a 15,000 SF, Ft. Lauderdale office building; Village Commons shopping center, 169,000 SF, located in West Palm Beach.; Fairmount Square, a 36,000 SF office building in Phoenix

Thus PNV must act quickly in the waning days of 1988 to keep from receiving cash for the balance. Much larger deals are under investigation but none have been completed.

Buy-out proposal: Goodtab Management Co., an investor group led by Robert Goodman, has been making overtures to PNV for the best part of 1988. In Apr. Goodtab made an initial offer of $19.00 cash per share for outstanding shares not held (7.3% at the time). After having this offer rejected by PNV, Goodtab increased its offer to $21.50 per share. Again, Goodtab was rejected. There the matter rests.

Cash flow and dividend: PNV's net income has been negative for the last year, as management expects. Net cash flow has fallen to the level where it could threaten the current dividend payout level. PNV's cash flow has been hurt by costs associated with the JMB swap and continued operating losses of about $0.33/sh. at 306-room Radisson Suite Hotel, Phoenix.. We expect cash flow to recover as additional higher-yielding properties are acquired.

Advice: Aproach shares cautiously, with an eye open for PNV's cash flow improvement as properties are added and problems at the Tucson Radisson are ironed out. (MJH)

PNV:ASE RANK B Dec. years 3.91 mil. shares.
$16.38 Div. $0.60 Yield 3.7% Price/CFS 54.6%

	Op.EPS	Op.CFS	Div.	High	Low	Yield
1985	$d0.08a	$0.80a	$0.10	$13.88	$11.00	0.7-0.9%
1986	d0.44a	1.00a	0.46	16.88	10.88	2.7-2.7
1987	d1.58a	1.14a	0.57	20.50	12.75	2.8-4.5
1988E	d1.50	0.70	0.60	20.00	15.25	3.0-3.9
1989E	d1.25	0.80	0.60			

a-Net of preferred dividends & incl. sale gains: $0.53-'86; $0.73-'87.

Debt: $114.2 mil. Equity: $87.2 mil. $22.31/sh. Debt/Equity ratio 1.31-1.

Address: 490 Union Avenue, Framingham, MA 01701.(508) 875-6975

RV 11188

THE RYLAND GROUP, INC.

RYL is a major builder of single family homes nationwide (with a mid-Atlantic modular housing unit). It also runs a large mortgage banking company and entered asset management when it recently created (and advises) a collaterallized mortgage obligation (CMO) REIT, RAC Mortgage (RSR, Sept. 23).

Gut Issue: Can RYL's Calif. operations carry the load in 1989, shaping up as an off year in the rest of the country? RYL had record earnings for the 3 and 9 mon. thru Sept. 30. Historically Sept. is RYL's strongest quarter. RYL is also posting record backlog which will help earnings in the Dec. 1988 quarter and on into 1989. But the grimmer interest rate outlook could cause this backlog to melt as 1989 progresses.

That mean's RYL's Western operations are key to its 1989 outlook. The West, particularly the Denver market, has been suprisingly good for RYL, but if the M.J. Brock unit is unable to capitalize on the Calif. housing boom, RYL will have a tough time reaching our 1989 EPS estimate of $2.25/sh. The big variable for RYL is that it must keep escalating costs under control in 1989, as margins are already being squeezed. Calif. won't be able to take the heat off unless RYL can contain costs.

The Calif. housing industry is having a banner year but RYL's M.J. Brock unit has had mixed results , achieving its best results thru joint ventures. Joint ventures, which account for approx. 40% of Brock settlements, have shown exceptional returns in the first six months, up 142%. Brock goes in as the general managing partner and receives a 3-4% fee against project revenues.

Ryland Modular Homes' units settled are up 3% in the first nine months and this occurred while the unit is restructuring. RYL's mortgage operations continue their strong showing despite the more competitive lending environment, mostly on the issuance of REMIC's and CMO's.

Earnings and dividends: RYL's earnings are likely to suffer in 1989 as a national housing cycle winds down. Expectations for interest rates to rise near-term do not bode well for homebuilding. Backlog is up stong so the dividend should be secure into 1989, but RYL is not an income play.

Advice: Hold but don't buy shares. RYL shares are trading at half their historical highs and at a low 7 times earnings. RYL is a quality homebuilding holding for accounts willing to take the current interest rate risk. (MJH)

RYL:NYSE RANK A Dec. yrs. 13.1 mil. shares.
$18.25 Div. $0.40 Yield 2.2% Price/EPS 6.86

	Op.EPS	Div.	High	Low	Yield
1985	$1.27	$0.32	$14.88	$10.00	2.1-3.2%
1986	2.02	0.38	27.63	11.25	1.3-3.4
1987	2.35	0.38	33.00	11.00	1.2-3.5
1988E	2.66	0.40	17.75	13.75z	2.3-2.9
1989E	2.25	0.40			

z-to date.

Debt: $151.8 mil. Equity: $159.3 mil. $11.28/share Debt/Equity ratio 0.95

Address: P.O. Box. 4000, 10221 Wincopin Circle, Columbia, MD 21044. (301) 730-7222

RV111CY

STANDARD PACIFIC, L.P.

SPF is an MLP that builds single family "move-up" homes across booming Calif. Subsidiary Standard Pacific Savings, F.A., offers financing to SPF homebuyers and subsidiary Panel Concepts manufactures office furniture and paneling.

Gut Issue: Can SPF get additional play from Calif. in 1989? SPF broke closing and revenue records in 1987 and is on its way to doing so again in 1988. The big question is whether SPF can ride this wave into 1989.

The key to understanding California's superheated housing market is that government slow-growth rules limit supply. New homes are sold almost effortlessly. Because builders don't have to advertise, the once-huge Los Angeles Times Sunday real estate section has shrunk to eight pages. In this environment, land supply is crucial to a homebuilders' success.

And land supply is SPF's strong suit. SPF has nearly a three year supply of land at its current pace of development, so the variable is whether demand continues. All demographic trends portend that the demand will be there for at least the near-term.

But Calif. housing prices, already among the nation's highest, are already outrunning consumer ability to pay. The spiraling prices have invited a return to speculative buying and flipping of purchase contracts, a practice that inevitably causes a slowdown.

EPS estimates: SPF delivered 1,249 homes in the nine months thru Sept. 30, up 8%. But average selling price jumped 34% to $245,000, and this moved gross profit margins to 20%, up from 16% a year ago. With this boost, EPS per unit rose 36% to $1.57/unit and we now see about $2.10/un. in 1988 and a smaller uptick to about $2.25 for 1989. We hasten to add that these estimates are on the low side compared to Wall Street numbers.

Advice: Believe it or not, SPF is the high yield, low risk way to play California housing — for individual investors. SPF pays $1.20 annually, giving the units a 10.2% yield that seems well protected. Because SPF is a master limited partnership (MLP), most payout is tax-protected for now but units aren't suitable for institutions. Buy. (KDC)

(SPF:NYSE) RANK A Dec. yrs. 27.0 mil. units.
$11.88 Div. $1.20 Yield 10.1% Price/EPS 6

	Op.EPS	Div.	High	Low	Yield
1985	$0.84a	$0.27	$16.38	$8.00	1.6- 3.4%
1986	1.11a	0.40	16.88	6.75	2.4- 5.9
1987	1.62	2.40b	17.38	6.75	13.8-35.6
1988E	2.10	1.20	12.38z	8.13	9.7-14.7
1989E	2.25	1.28			

a-Fully taxed EPS in 1985-86, and no taxes thereafter as SPF converted to MLP format 12/86. b-Special $1.50 distribution paid 4/87. Prices adjusted for a 3-for-2 stock split paid 3/86 and 2-for-1 stock split paid 5/87. z-To date.

Debt: $228.3 mil. Equity: $186.1 mil. equals $6.89/unit. Debt/equity ratio: 1.2-1.

Address: 1565 W. MacArthur Blvd., Costa Mesa, Cal. 92626. (714) 546-1161.

MAJR1K8 RSR33t 30A

MAJOR REALTY CORP.

MAJR is a Florida land bank aspiring to be a major developer. The company is focused around two tracts: 732 acres in Orlando known as Florida Center, and 11 acres on downtown Tampa's waterfront.

The Orlando property benefits from a friendly neighbor: Universal Studios and its parent, MCA Inc. MCA is in the midst of constructing a twin of its Los Angeles Universal Studios Tour, a combination amusement park and movie studio that is expected to attract millions of tourists annually. MAJR sold MCA the 312-acre site in 1981.

Gut Issue: MAJR's got some teriffic property, but will the market take it seriously as a developer? For 20 years MAJR has subsisted by gradually carving up its Orlando tract to other developers. But the company has decided to turn builder by contributing its most valuable property -- 274 acres in Orlando and the Tampa tract -- to a joint venture with Prudential Insurance Co. of America. The venture plans to build a 1 mil. sq. ft. Galleria shopping center in Orlando and a major office complex in Tampa. But four years after MAJR and Pru teamed up, the venture has nothing in the ground and its plans are still tenuous.

Part of the delay reflects widely perceived market problems in the Galleria Orlando. The plan for a high-fashion regional mall is limited by the site's distance -- 10 miles and more -- from the bulk of Orlando's higher income residents. Indeed, in driving around the site we noticed that the area within a two-mile radius isn't densely populated with shoppers of any income class. Certainly the tourists that will be streaming into Universal and nearby Sea World will help, but we believe potential department store anchors will be looking for a larger resident population of buyers, not transient shoppers. At this point, MAJR has attracted strong interest from one department store, Ivey's, but is only in the talking stages with other crucial anchors.

Plans for an office tower on downtown Tampa's waterfront have been scrapped in favor of a hotel. The office plan was hamstrung by the city's condemnation of 3 acres for a convention center, which significantly altered the site's configuration. The nasty condemnation fight, however, could be a blessing because MAJR was facing stiff competition for tenants from other major developers breaking ground on a three-year supply of office space in the next few months. However, in light of a recent forclosure on Tampa Hilton, a hotel may be difficult to financ.

MAJR's restriction of land sales is hitting earnings. For the nine months ended Sept. 30, MAJR lost $0.45/sh. vs. $1.88 EPS last year when it made major sales. The company is also cash flow negative, minus $0.35/sh. vs. positive $2.31 in 1987. In a move to generate recurring income, MAJR in April paid $12.9 mil. for a 185,000 SF downtown Orlando office building ($70/SF). The building should be cash flow positive but higher depreciation will burden reported operating expenses.

Advice: Hold/buy long term. Despite its deep-pockets partner, we don't believe the market will take MAJR seriously as a developer until significant tenants are secured for Galleria Orlando and the downtown Tampa hotel plan attracts financing. In May MAJR signed a standstill agreement with Stoneridge Resources Inc., pretty much removing takeover pressure. Long-term MAJR claims net asset value of $22/sh. and we think this makes the stock a strong hold. (JMH)

MAJR-OTC Rank C Dec. Years 7.32 mil. shares
$10.00 Div. 0.0 Yield 0.0 P/EPS: NM

	Op. EPS	Div.	High	Low
1985	$1.70	0.0	$9.75	$8.00
1986	(.67)	0.0	13.25	8.25
1987	.05	0.0	16.13	7.75
1988E	(.65)	0.0	11.25	8.68

Debt: $29.2 mil. Mgt. NAV est. $161 mil. ($22/sh.) Debt/NAV .20

Address: 5728 Major Blvd. Orlando, Fla. 32819 (#05) 351-1111

RV 11/88 30A +SM 11/88 #30A #38

SOUTHMARK CORP

The simple question with this deeply distressed real estate and financial services company is, can it survive? SM has spent the last year struggling to restructure while ducking predictions of an imminent Chapter XI filing. Although SM made its name by syndicating real estate partnerships, insurance and S&L operations compose roughly 70% of the company's equity, but just a small portion of operating income.

The triple threat of collapse of the syndication market, bad loans in its ailing San Jacinto S&L unit, and a $3.7 bil. non-banking debt load is crushing SM. The market is so nervous about SM that a casual annual golf junket for its bankers recently triggered anxious calls from SM's own investment bankers asking why SM execs were secretly meeting with their creditors.

But the market has a good excuse for overreacting. SM's proposed restructuring plan could allow the company to shed much of its debt through a Chapter XI filing, while at the same time leaving its subsidiaries relatively unscathed.

Cutting SM's myriad subsidiaries away exposes the core of the company's crisis. On a consolidated basis, SM's June 1988 fiscal year shows cash flow of $9.80/sh. and almost 2 times interest coverage. But that figure includes cash generated by SM's regulated subsidiaries and other holdings that can't be readily tapped. The holding company, which signed for about 83% of SM's $1.2 mil. in junk bonds and other notes, posted negative operating cash flow for the June year to the tune of $4.19/sh. (We subtract $6.50/sh. in new borrowing that for some reason SM accountants slide into operating cash flow.) The parent's June year interest obligation was $4.50/sh. About $940 mil. in SM bonds will mature between 1989 and 1994.

What's the plan and will it work? Part of SM's survival strategy is clear. SM is hurriedly using cash from sales of real estate and other assets to expand its lock down sources of recurring management fees. The second eventual phase seems to be to take over these minority-owned affiliates to supply fresh pools of properties at steep discounts. That way, SM will have ready product if the syndication market rebounds in a few years.

The company has been busy carving up its $1.7 bil. (at cost) real estate portfolio to meet interest payments and buy back $100 mil. of its debt paper at a 32% discount. About $500 mil. of assets is slated for sale during calendar 1988, but profit margins aren't as big as SM normally gets. During fiscal 1986 and 1987, SM's property sales fetched 40% margins. In the recent wave of sales, however, gains shrank to 30% through June and to just 22% in the September quarter. Also, the $1.06 bil. routine and extraordinary real estate sales during the June 1988 fiscal year generated just $653 mil. in cash. SM took back $406 mil. of mortgages.

SM also expects to raise $200 mil. from the sale of its Integon life insurance unit and $80 mil. from the disposal of its half-interest in Servico Inc., a West Palm Beach, Fla. hotel managment company. SM plans to use much of that cash to buy back more of its public debt, raising the total repurchases to $375 mil.-plus.

A sample of SM's broad strategy is the current tender offers for up to 20% of two SM-advised REITs, Consolidated Capital Income Trust and Consolidated Capital Special Trust. Although SM-controlled National Realty L.P and American Realty Trust are the nominal bidders for the two Con Cap trusts, SM is loaning up to $16 mil. of the $31 mil. cost of the offers. Both trusts were the target of an aborted takeover bid by another investor this year and SM fears losing both the management fees and control of the properties.

Another example is the March 1988 acquisition of a 35% interest (74% voting control) in Johnstown American Cos. by San Jacinto S&L. In addition to bringing along management agreements with the Con Cap trusts and assorted limited partnerships, Johnstown's highly-regarded apartment management division produces additional fees plus allows SM to repair its own sullied reputation in that business. SM's September quarter fee income rose 44%, mainly because of the Johnstown acquisition.

The second part of SM's strategy is cloudier, but could foreshadow a run to Bankruptcy Court. By the end of the year SM plans to submit to shareholders a plan to create a new holding company umbrella for the SM empire. The old holding company, the one to which most debt is attached, will become a subsidiary of the new umbrella. Current subsidiaries — which contain SM's principal assets — are to be broken out from the old holding company to become subs of the new holding company.

The stated purpose is to squeeze preferred shareholders in the old holding company into swapping their shares for common stock and notes. The $40 mil. dividends on two issues of cumulative preferred were suspended in May and SM says dividends won't kick in again for three years or more. SM execs say the restructuring will give the new holding company flexibility for additional financing, although they won't give any details.

The restructuring, however, could also allow SM to shield assets in a Chapter XI proceeding. If the current SM holding company filed for Bankruptcy Court protection today, creditors could go after all of the subsidiaries. But if the subsidiaries are separated from the old holding company under the proposed reorganization, SM could take just the old holding company in Chapter XI without necessarily involving all the assets of the other subsidiaries and the new holding company. Remember, it's the old holding company that carries most of the junk bond debt.

Whether this scenario could be realistic depends on the details of the reorganization plan, which haven't yet been finalized, and any restrictive covenants in SM's junk bonds. But even if our suspicion of SM's hidden agenda is correct **SM execs may only plan to use it as a lever to gain concessions from bondholders.**

Advice: By focusing on recurring income and controlling discounted property pools, we believe SM is headed in the right direction. **But we advise you to avoid the company's common stock.** It's too early to tell whether SM will be able to sucessfully restructure. Even without a Chapter XI filing, debt restructuring will undoubtedly include an equity swap substantially diluting SM's common. SM does hold one play for the adventuresome: its two issues of cumulative preferred stock. If pref holders reject the squeze-down, SM night pay off accumulated dividends in a year or two. (JMH)

SM-NYSE Rank C June years 45.3 mil. shares
$2.13 Div 0.00 Yield 0% P/E Ratio: NM

1984	$1.18	$0.13	$11.38	$6.13	1-2%
1985	1.51	0.16	6.75	5.00	2-3
1986	1.54	0.22	14.00	5.25	1-4
1987	1.09	0.24	11.25	8.00	2-4
1988	(3.60)	0.12	10.25	2.13	1-6
1989a	(0.20)	0.00	3.75	2.00	0-0

a-Three months NM- Not meaningful

Non-banking debt: $2.8 bil.; preferred: $389 mil.; Net Equity: $307.4 mil. ($5.99/sh.)
Debt/Equity Ratio: 11.8-1.
Address: 1601 LBJ Freeway, Dallas, Tex. 75234. (214) 241-8787

+LML 1188

LANDMARK LAND CO.

Landmark (LML--ASE--$20.88) is a major golf course community developer which is expanding into financial services, mainly via takeover of troubled thrifts in Louisiana and Oklahoma. In May 1988 it acquired First Life Assurance Co. of Oklahoma City.

Gut Issue: When will stability return to LML's earnings? Since venturing into financial services in 1985, LML's quarterly and annual EPS have been on a yo-yo. EPS plunged to a $5.96/sh. loss in 1987 from $1.26 income the year before, largely because of $3.80/sh. pretax loss provisions. The first half of 1988 got off to a good start with $1.14/sh. EPS, vs. a loss. Then LML lost $1.25/sh. in the Sept. qtr., giving LML $0.11/sh. loss for the nine months. We make no estimate for the year.

LML's has a long record of generating high profits by developing luxury golf course communities in Palm Springs and Carmel Valley, Calif., Oklahoma City and Denver. These courses are major league and regularly host major national tournaments. Sales of club memberships are a significant revenue source. In 1987 it bought Palm Beach Polo and Country Club, and expanded resort hotels at Carmel Valley, PGA West and La Quinta in Palm Springs.

S&L operations have been consolidated into Oak Tree Savings Bank with $2.1 bil. assets and $790 mil. capital. Scheduled items (non-performing assets) were a low 2.5% at latest report.

Advice: Hold or buy long-term. Erratic EPS worry us at this point in the real estate cycle. LML's $5.41/sh. book value isn't realistic since it includes major parcels owned for nearly 70 years. But it also includes $17.01/sh. of goodwill and other intangibles. With two major shareholders on board -- Pres. Gerald Barton with 29.4% and Canadian realty giant Olympia & York at 24.7% -- we cannot rule out a move to take LML private at some time. Shares retain a C Rank (KDC)

M.D.C. HOLDINGS, INC.

MDC (MDC--NYSE--$3.13), Denver based multi-market homebuilder, has stumbled into a deep hole and extrication may take a long time. Earnings have eroded because of falling housing sales in Colorado and Texas. Operations in Fla., Washington, D.C., and Calif. haven't been strong enough to reverse the tide.

MDC lost $0.84 per share in the first half of 1988, including a $28 mil. (or $1.57/sh. pre-tax) writeoff of its investment in a troubled Color. thrift, Silverado Banking and S&L. That was partly offset by $0.28/sh. gain on debenture repurchase.

Gut Issue: What steps can MDC take to regain investor confidence? First, MDC must foresake questionable land profits in favor of recurring homebuilding earnings. MDC's land sale dealings with Silverado and a subsidiary of American Continental Corp. of Phoenix have come under S.E.C. scrutiny. These sales provided only nominal profit in 1987, vs. about 80% of land sales gross profits in 1985 and 1986. Whatever the outcome, the probe underscores MDC's reliance upon land profits, which sooner or later must be ended.

Second, MDC has to shake the image of being a corporate opportunist. MDC has relied heavily upon Drexel Burnham junk bonds to raise capital in the past (e.g., selling $506 mil. in one 1986 offering), and then using proceeds to chase other stocks. At various times MDC has made takeover/rescue overtures for Vicorp Restaurants and Western Union Corp., as well as buying large blocks of Public Service of Colorado, and S&Ls Imperial Corp. of America and Silverado.

Investors see this as generating non-recurring income (and sometimes losses as with Silverado). Moreover, the suspicion exists that MDC holds a good chunk of junk bonds sold by other Drexel clients -- junk bonds which may be selling well below par and with little realistic hope of rapid recovery. A dividend cut to $0.20 in Sept. seemed to confirm investor fears.

Advice: Avoid for now. MDC shares keep making new lows as the market continues to expect the worst. So far we've not seen any real evidence of a turnaround in this negative climate. With a book value of $11.57, MDC shares are statistically attractive but the unknowns give us pause. We are retaining C Rank. (KDC)

UDC-UNIVERSAL DEVELOPMENT L.P.

UDC (UDC--NYSE--$18.75), a multi-market homebuilder operating as a master limited partnership, continues to record earnings gains. UDC builds adult and family communities in Phoenix, northern and southern Calif., Charlotte, N.C., Atlanta, and Palm Beach County, Fla.

Gut issue: Can UDC keep momentum during a housing downturn? Unlike most homebuilders who reflect the imprint of a single entrepreneur, UDC was started by Chicago venture capitalists to build homes in highly focused markets. The strategy has worked well so far. Two main markets:

Retirement markets in Ariz., No. Calif. and Fla. account for about 40% of UDC volume. Unit deliveries fell 2% in the first half to 337 units. About 48% of UDC's available 17,975 lots are in retirement communities.

Move-up family markets in all five operating areas account for about 60% of current unit volume. Deliveries rose 10.5% in the first half to 503 units, aided by opening of two new communities. Slightly over half of UDC lots are for family homes.

UDC controls land thru land partnerships it helps organize, with UDC agreeing to take down lots on a schedule. The plan gives UDC control over future land supply without burdening the balance sheet with land-related debt.

EPS and Dividends: UDC earned $2.20/unit in the nine mon. thru Sept., up 16%. The year should exceed last year's $3.20/sh. Nine month deliveries rose 9% to 1,361 units and unit backlog at Sept. 30 of 1,047 units rose 38%. Dividends are approx. 72% of income and yield about 12.8%.

Advice: While UDC's focused approach has worked well during the long housing boom, **it remains uncertain how UDC would do if national starts were to fall sharply.** While all the numbers look good now, we see UDC as a strong hold for individuals (tax exempt institutions cannot buy the MLP units). B Rank continues. (KDC)

+Del Webb WEBB 30A